

# HOUSE BILL REPORT

## HB 2646

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### As Reported by House Committee On: Appropriations

**Title:** An act relating to plan membership default provisions in the public employees' retirement system, the teachers' retirement system, and the school employees' retirement system.

**Brief Description:** Addressing plan membership default provisions in the public employees' retirement system, the teachers' retirement system, and the school employees' retirement system.

**Sponsors:** Representatives Ormsby, Chandler, Reykdal, Hayes, Robinson, Tharinger, Riccelli, MacEwen and Bergquist.

#### **Brief History:**

##### **Committee Activity:**

Appropriations: 1/28/16, 2/4/16 [DP].

#### **Brief Summary of Bill**

- Changes the default plan for new members who are first eligible to enter the Public Employees' Retirement System, Teachers' Retirement System, or School Employees' Retirement System Plan 2 or Plan 3 on or after July 1, 2016, but do not choose a plan, from Plan 3 to Plan 2.

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### HOUSE COMMITTEE ON APPROPRIATIONS

**Majority Report:** Do pass. Signed by 20 members: Representatives Dunshee, Chair; Ormsby, Vice Chair; Chandler, Ranking Minority Member; Parker, Assistant Ranking Minority Member; Wilcox, Assistant Ranking Minority Member; Cody, Fitzgibbon, Hudgins, S. Hunt, Jinkins, Kagi, Lytton, MacEwen, Pettigrew, Robinson, Sawyer, Springer, Sullivan, Tharinger and Walkinshaw.

**Minority Report:** Do not pass. Signed by 10 members: Representatives Buys, Dent, Haler, Harris, Magendanz, Manweller, Schmick, Stokesbary, Taylor and Van Werven.

**Minority Report:** Without recommendation. Signed by 1 member: Representative Condotta.

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

**Staff:** David Pringle (786-7310).

**Background:**

The Public Employees' Retirement System Plans 2 and 3 (PERS 2/3) provides benefits for all regularly compensated public employees and appointed officials unless they fall under a specific exemption from membership, such as qualification for another membership of the state retirement systems. Covered employees include all state agencies and subdivisions and most local government employees not employed by the cities of Seattle, Tacoma, and Spokane.

The PERS 2 and Teachers' Retirement System (TRS) Plan 2 were created in 1977, and covered all new members of PERS and TRS. Plan 2 within each of the systems is a defined benefit plan that provides a retirement allowance based on 2 percent of final average salary for each year of service, and a normal retirement age of 65. Early retirement benefits are available beginning at age 55, with reductions depending on the member's age and years of service. Contributions for the plan vary from year to year with actuarial requirements, are divided equally between employers and employees, and are each paid into the defined benefit pension fund for purposes of supporting the defined benefits at retirement. School Employees' Retirement System (SERS) Plan 2 was created in 2000, along with SERS Plan 3 out of the classified school employees that had previously been covered in PERS 2.

Plan 3 is a hybrid defined benefit and defined contribution retirement plan. Employer contributions support a 1 percent of final average salary benefit for each year of service with a normal retirement age of 65. Early retirement benefits are similar to those offered in Plan 2. Employee contributions are made to an individual defined contribution account. The rate of employee contributions are selected by the employee during a period following each term of employment, and are fixed for the duration of the employment relationship. Employee contributions vary between 5 percent and 15 percent of pay, and there are a variety of investment options available for members, including participation in the same combined investment fund used for the defined benefit plans.

The TRS Plan 3 was created in 1995, SERS Plan 3 in 2000, and PERS 3 was created in 2002. From the creation of PERS 3, new members of PERS were given a period of 90 days to choose to become a member of Plan 2 or Plan 3. The choice is irrevocable, and is thereafter the only PERS plan that the member may participate in, including periods worked after a break in employment or with a different employer. If a member does not choose membership in either Plan 2 or Plan 3, he or she becomes a member of Plan 3.

The TRS and the SERS Plans 2 and 3 each have similar provisions providing choice of Plans 2 and 3 as PERS 2/3. The choice of Plan 2 for new employees was added by the Legislature in 2007 with the adoption of House Bill 2391, a bill that also repealed gain-sharing provisions and enacted a number of other benefit enhancements to several plans of the state retirement systems. Prior to this 2007 change, and after the creation of TRS 3 and SERS 3, only Plan 3 was available to new members of those retirement systems.

**Summary of Bill:**

For members that first become employed by a PERS, TRS, or SERS retirement system employer on or after July 1, 2016, the default plan for members that do not choose a plan within 90 days is changed from Plan 3 to Plan 2.

The bill contains a severability clause, indicating that if any provision of the act or its application to any person or circumstance is held invalid, the remainder of the bill is unaffected.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.

**Staff Summary of Public Testimony:**

(In support) This is a huge part of our function as an employer. A mutual friend that retired recently said that they watched their 401(k) plummet in value – this is more like Plan 3, where the defined contribution portion of the benefit can decline. So members of PERS should only be faced with this kind of a situation if they make the conscious choice to take on such risk. Young employees are often not focused enough on this decision to be locked in to the more risky plan option. While both plans offer good features, if employees do not choose they should be in the lower risk plan, with shared costs. Members that default into Plan 3 also default into the inadequate minimum contribution rate. There are examples of other states that have used this choice structure, and instead maintained the default into the guaranteed benefit plan. This is a change that advocates have been asking for since 2010. In recent years only 15 percent of members choosing have been choosing Plan 3.

(Opposed) None.

**Persons Testifying:** Representative Orsmy, prime sponsor; Julie Salvi, Washington Education Association; and Matt Zuvich, Washington Federation of State Employees.

**Persons Signed In To Testify But Not Testifying:** None.